

Message Text

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ACTION EB-11

INFO OCT-01 ARA-11 ADP-00 CAB-09 CIAE-00 COME-00 DODE-00

INR-10 NSAE-00 RSC-01 FAA-00 SS-15 NSC-10 DOTE-00 L-03

RSR-01 /072 W

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R 192225 Z JUN 73

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 4616

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EO 11652: N/ A

TAGS: EFIN ETRN CI

SUBJ: CIVAIR: PRESSURES BY BRANIFF AND OTHER AIRLINES
ON CENTRAL BANK RE EXCHANGE PROBLEM

REF: SANTIAGO 2523

1. SUMMARY: BRANIFF AND OTHER FOREIGN AIR CARRIERS IN SANTIAGO ARE TAKING HARDER LINE WITH CENTRAL BANK RE FINANCIAL STRAIN CAUSED BY BANK'S RECENT EFFORTS TO TIGHTEN CONTROL OVER REMITTANCES AND EXCHANGE. BRANIFF'S JUNE 14 DECISION TO STOP COLLECTING EXCHANGE TAX ON LOCAL ESCUDO TICKET SALES, JOINED TO DATE BY TWO OTHER LINES, COULD HAVE CONSIDERABLE FINANCIAL IMPACT ON BANK. STRONG REACTION BY BANK IS LIKELY, AND NUMBER OF LINES ARE APPARENTLY CONSULTING HOME OFFICES RE STOPPING TAX COLLECTION AS WELL AS POSSIBLE RETALIATORY MOVES AGAINST LAN- CHILE IN HOME COUNTRIES. FOR THE TIME BEING, BRANIFF DOES NOT PLAN TO REQUEST USG ACTION AGAINST LAN. END SUMMARY.

2. TEMPO OF ACTION IN EXCHANGE PROBLEM ACCELERATED AS EXPECTED DURING LAST WEEK. BRANIFF LOCAL OFFICE INFORMED CENTRAL BANK THAT EFFECTIVE JUNE 14 IT WAS CEASING COLLECTION OF 53 PERCENT TAX ON EXCHANGE OF PROCEEDS FROM LOCAL ESCUDO TICKET SALES, AND HAS NOT BEEN COLLECTING TAX SINCE THAT DATE. BRANIFF
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ALLEGED THAT, SINCE IT ABANDONED CENTRAL BANK CIRCULAR JUNE 1 AND NO LONGER APPLIES TO BANK FOR REMITTANCES (REFTEL), BASIS FOR BRANIFF TO COLLECT TAX NO LONGER EXISTS. AS BACKUP, BRANIFF OBTAINED LETTER FROM CHILEAN INTERNAL REVENUE OFFICE STATING THAT IT WAS NOT REQUIRED TO COLLECT TAX. BANK IMMEDIATELY RESPONDED BY REFUSING TO SELL DOLLAR QUOTAS TO TRAVELERS WITH BRANIFF TICKETS (NOT A SIGNIFICANT PROBLEM, ACCORDING TO BRANIFF).

3. MOST OF THE OTHER FOREIGN CARRIERS WERE WATCHING TO SEE HOW BRANIFF FARED. THIRTEEN SIGNED LETTER TO BANK DATED JUNE 13, PROTESTING BANK REGULATIONS ON REMITTANCES AND EXCHANGES IN CIRCULAR 1884, EFFECTIVE JUNE 1 (REFTEL). LETTER ALSO QUESTIONS BANK' S JURISDICTION OVER SOME ASPECTS OF FOREIGN AIRLINES SALES IN CHILE, NOTES THAT SIGNERS CONSIDER THAT DISCRIMINATION IS INVOLVED, AND DEMANDS THAT CIRCULAR 1884 BE REVISED. ONLY NON- SIGNERS WERE AEROFLOT, CUBANA AND BRANIFF (LATTER BECAUSE OF BELIEF IT IS IN UNIQUE LEGAL POSITION.)

4. ON JUNE 15 AVIANCA ANNOUNCED IT WAS CEASING COLLECTION OF EXCHANGE TAX IMMEDIATELY, AND AEROLINEAS ARGENTINAS SAID IT WAS TAKING THIS MEASURE EFFECTIVE JULY 1. EMBASSY AIRLINE CONTACTS SAY THERE IS CONSENSUS AMONG FOREIGN AIR CARRIERS TIN SANTIAGO THAT OPERATIONS UNDER TERMS OF CIRCULAR 1884 ARE NOT FEASIBLE. FURTHER THEY CANNOT MEET SALES COMPETITION OF LINES (BRANIFF, AVIANCA) WHICH HAVE STOPPED COLLECTING EXCHANGE TAX. THEREFORE, SOURCES EXPECT ADDITIONAL ANNOUNCEMENTS TERMINATING TAX COLLECTION WILL BE FORTHCOMING.

5. GENERAL MANAGER OF SAS CONFIRMED TURN TOWARD HARDER LINE BY CARRIERS. HE TOLD EMBOFF JUNE 15 THAT MOST LINES ARE CONSULTING THEIR HOME OFFICES RE REFUSING COLLECTING EXCHANGE TAX, AS WELL AS POSSIBLE RETALIATORY RESTRICTIONS ON LAN. AIR FRANCE, LUFTHANSA AND IBERIA, WHO " POOL" WITH LAN, ARE MOST SIGNIBWANT MEMBERS OF THIS GROUP. SAS MANAGER EXPLAINED THAT AIRLINES HAVE DECIDED IT IS TIME TO DISABUSE CENTRAL BANK VP GONZALO FAZIO (PCCH) OF WHAT THEY FEEL IS LATTER' S HIGH- HANDED CONVICTION THAT CIVIL AVIATION IN CHILE IS ONE- WAY STREET. ACCORDING TO THIS OFFICIAL, FAZIO HAS MADE NO SECRET OF FACT HE WISHES EVENTUALLY LIMITED OFFICIAL USE

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TO ELIMINTE CAPITALIST SYSTEM AIRLINES FROM CHILE. NOW THAT ALLENDE HAS BEEN SENSITIZED TO THIS ISSUE BY LAN, OTHER AIRLINES FEEL THAT THEY MUST APPLY STRONGER PRESSURES, AND DEAL WITH OTHER OFFICIALS INCLUDING ALLENDE, IN ORDER TO FIND REASONABLE SOLUTION.

6. CARLOS BRUNSON, BRANIFF VICE- PRESIDENT, TOLD EMBOFF

THAT LAN- CHILE IS BECOMING CONCERNED ABOUT REPRISALS FROM VARIOUS COUNTRIES IN WHICH LAN OPERATES, AND HAS DISCUSSED THIS CONCERN WITH PRESIDENT ALLENDE. BRUNSON SAID THAT VARIG HAS ALREADY PROHIBITED LAN FROM PICKING UP PARIS- BOUND PASSENGERS IN RIO, AND IS CONSIDERING NOT RENEWING PERMISSION FOR ONE BRAZILIAN SEGMENT OF LAN FLIGHT. BRUNSON ADDED THAT BRANIFF DOES NOT RPT NOT PLAN TO REQUEST RETALIATORY ACTION BY THE USG AGAINST LAN AT THE PRESENT TIME, THOUGH THIS IS A POSSIBILITY DURING THE NEXT FEW MONTHS.

7. COMMENT: PRINCIPAL CENTRAL BANK OBJECTIVE IN DEALING WITH FOREIGN CARRIERS HAS BEEN TO EXTRACT MAXIMUM FOREIGN EXCHANGE FROM THEM. BANK IS NOT LIKELY TO ACCEPT QUIETLY AIRLINE MOVES WHICH WOULD BOTH COST CHILE FX AND SHOW THAT BANK HAS LOST CONTROL OF A SITUATION IT THOUGH WAS IN ITS POWER. IF FAZIO IS LEFT TO HANDLE THIS ON GOC SIDE THERE MAY BE SOME ROUGH FLYING AHEAD.
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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 19 JUN 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: elyme
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973SANTIA02670
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730624/aaaajhlk.tel
Line Count: 139
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 SANTIAGO 2523
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 16 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16-Jan-2002 by martinjw>; APPROVED <07 FEB 2002 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> jms 980217
Subject: CIVAIR: PRESSURES BY BRANIFF AND OTHER AIRLINES ON CENTRAL BANK RE EXCHANGE PROBLEM
TAGS: EFIN, ETRN, CI
To: EB
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005